

FISCAL NOTE

SB 2686 - HB 2824

February 12, 2008

SUMMARY OF BILL: Creates a wine direct shipper license to allow a manufacturer or supplier licensed in Tennessee or in any other state to ship up to two 9-liter cases of wine per year directly to a Tennessee resident.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue – Net Impact - \$4,629,500/General
Fund/FY08-09**

**\$9,628,000/General
Fund/FY09-10 and
Thereafter**

**\$250,000/ABC
Fund/FY08-09**

**\$125,000/ABC
Fund/FY09-10 and
Thereafter**

**Increase State Expenditures – \$32,800/One-Time
\$ 200/Recurring**

**Increase Local Revenue – \$1,050,000/FY08-09
\$2,150,000/FY09-10 and Thereafter**

Assumptions:

- A one-time increase in state expenditures of \$32,800 for systems changes required by the Department of Revenue.
- A recurring increase in state expenditures of \$175 for annual systems changes required by the Department of Revenue.
- Wine sales are subject to a \$1.21 per gallon excise tax. Assuming a 4% annual growth rate, FY08-09 collections for such tax are estimated to be

approximately \$10,383,000 and FY09-10 collections are estimated to be approximately \$10,799,000.

- Assuming a 4% annual growth rate, FY08-09 state sales tax collections for wine sales are estimated to be approximately \$20,550,000 and FY09-10 state sales tax collections are estimated to be approximately \$21,372,000.
- Assuming a 4% annual growth rate, FY08-09 local sales tax collections for wine sales are estimated to be approximately \$7,000,000 and FY09-10 local sales tax collections are estimated to be approximately \$7,168,000.
- The provisions of the bill will result in a 30% increase in excise, state, and local taxes.
- Because retailers are required by the bill to remit taxes on the total amount of tax due on sales for the calendar year, and the bill takes effect in the middle of a calendar year, first year collections will only reflect sales for half of one year.
- The increase in excise tax revenue for FY08-09 is estimated to be approximately \$1,557,500 $[(\$10,383,000 \times 1.30) - \$10,383,000] \times .5$ (half of one year) = \$1,557,450.
- The increase in excise tax revenue for FY09-10 and subsequent years is estimated to be approximately \$3,240,000 $(\$10,799,000 \times 1.30) - \$10,799,000 = \$3,239,700$.
- The increase in state sales tax revenue for FY08-09 is estimated to be approximately \$3,083,000 $[(\$20,550,000 \times 1.30) - \$20,550,000] \times .50 = \$3,082,500$.
- The increase in state sales tax revenue for FY09-10 is estimated to be approximately \$6,412,000 $(\$21,372,000 \times 1.30) - \$21,372,000 = \$6,411,600$.
- The increase in local sales tax revenue for FY08-09 is estimated to be approximately \$1,050,000 $[(\$7,000,000 \times 1.30) - \$7,000,000] \times .5 = \$1,050,000$.
- The increase in local sales tax revenue for FY09-10 is estimated to be approximately \$2,150,000 $(\$7,168,000 \times 1.30) - \$7,168,000 = \$2,150,400$.
- Current law authorizes a \$0.15 per case tax upon the sale of alcoholic beverages sold at wholesale in Tennessee. FY06-07 collections from this tax were approximately \$844,000. Assuming a 4 percent increase in liquor sales annually, revenue attributable to this tax, under current law, is estimated to be approximately \$878,000 $(\$844,000 \times 1.04 = \$877,760)$ in FY08-09. Utilizing the same 4% increase in sales, FY09-10 revenue from this tax is estimated to be approximately \$931,000 $(\$878,000 \times 1.04 = \$931,120)$. Because the provisions of the bill would allow consumers to make retail purchases from out of state, there is anticipated to be a decline in wholesale sales and subsequent collection of this tax. It is assumed that 50 percent of the revenue generated from

this tax is attributable to wine sales. It is further assumed that there would be a 5% decrease in wholesale sales subject to this tax. Therefore, in FY08-09 there is estimated to be a decrease in state revenues of approximately \$11,000 ($\$878,000 \times .5 \text{ wine sales} \times .05 \text{ decrease} \times .5 \text{ half of a year} = \$10,975$). In FY09-10 there is estimated to be a decrease in state revenue of approximately \$23,300 ($\$931,000 \times .5 \times .05 = \$23,275$).

- The bill authorizes a \$500 fee for new licensees shipping wine directly to consumers. Assuming 500 new licenses are sold there would be a one-time increase in state revenue of \$250,000 ($\$500 \times 500 = \$250,000$) in FY08-09.
- The bill requires a \$250 annual renewal fee for licensees shipping wine directly to consumers. Assuming 500 renewals per year in FY09-10 and thereafter, the recurring increase in state revenue is estimated to be \$125,000 ($\$250 \times 500 = \$125,000$).
- The net increase in state revenue to the General Fund for FY08-09 is estimated to be approximately \$4,629,500 ($\$1,557,500 + \$3,083,000 - \$11,000 = \$4,629,500$).
- The net increase in state revenue to the General Fund for FY09-10 is estimated to be approximately \$9,628,000 ($\$3,240,000 + \$6,411,600 - \$23,300 = \$9,628,000$).
- The FY08-09 increase in state revenue to ABC attributable to new licensee fee revenue is estimated to be \$250,000.
- The FY09-10 and thereafter increases in state revenue to ABC attributable to licensee renewal are estimated to be \$125,000.
- The increase in local government revenue for FY08-09 is estimated to be approximately \$1,050,000.
- The increase in local government revenue for FY09-10 is estimated to be approximately \$2,150,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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